Message Text

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SUBJECT: EC FORWARD PROGRAM FOR STEEL FOR THE SECOND QUARTER OF 1976

REF: (A) EC BRUSSELS 1656, (B) 75 EC BRUSSELS 11240

1. BEGIN SUMMARY: THE GENERAL RECOVERY IN THE EUROPEAN ECONOMIES IS HAVING ITS EFFECT ON THE EC STEEL INDUSTRY. THE EC FORWARD PROGRAM FOR STEEL FOR THE SECOND QUARTER OF 1976 PROJECTS A RISE IN EC STEEL PRODUCTION OF 9.3 PERCENT OVER PRO- DUCTION IN THE FIRST QUARTER,WITH DEMAND COMING FROM WITHIN THE EC AS EXPORT MARKETS WEAKEN. PRICES ARE STRENGTHENING AND HOURS OF WORK LOST ARE DECLINING. A SUMMARY OF THE EC FORWARD PROGRAM FOLLOWS END SUMMARY.

2. THE EC COMMISSION HAS APPROVED THE EC FORWARD PROGRAM FOR STEEL FOR THE SECOND QUARTER OF 1976, AND THE CONSULTATIVE COMMITTEE OF THE EUROPEAN COAL AND STEEL COMMUNITY IS EXPECTED TO GIVE ITS APPROVAL AT A MEETING IN LUXEMBOURG ON MARCH 12. (THREE COPIES OF THE FORWARD PROGRAM HAVE BEEN TRANSMITTED TO EUR/RPE ATTENTIO MC- CARTHY AND WE ARE ALSO FORWARDING IT UNDER COVER OF AN AIRGRAM). THE PROGRAM FOR THE SECOND QUARTER IS THE FIRST IN OVER A YEAR THAT HAS A SOMEWHAT OPTIMISTIC FLAVOR,EVEN IF CERTAIN PROBLEMS SUCH AS WEAK FOREIGN DEMAND,LOW LEVELS OF ACTIVITY IN THE CAPITAL
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GOODS SECTOR AND PRICES TOO LOW TO COVER PLANNED STEEL

INDUSTRIES'INVESTMENT ARE UNDERLINED.

3. THE MAIN THEME OF THE SECOND QUARTER PROGRAM IS THAT THE GENERAL UPTURN IN ECONOMIC ACTIVITY IN MOST EC MEMBER STATES IS BEING FOLLOWED BY AN UPTURN IN THE STEEL SECTOR. THE MONTHLY AVERAGE OF STEEL ORDERS DURING THE FOURTH QUARTER OF 1975 REPRESENTED AN INCREASE OF 9 PERCENT OVER THE SAME PERIOD OF THE PRECEDING YEAR ALTHOUGH STILL 20 PERCENT BELOW THE LEVEL OF ORDERS REACHED DURING THE STEEL BOOM OF LATE 1973 AND EARLY 1974. (ORDERS IN JANUARY AERE UP 9.1 PERCENT OVER ORDERS IN DECEMBER 1975.) THE INCREASE IN ORDERS CAME FROM WITHIN THE EC,AS FOREIGN ORDERS DROPPED ABRUPTLY THE PRELIMINARY EC STEEL PRODUCTION STATISTICS FOR THE FIRST QUARTER OF 1976 INDICATE AN INCREASE OF 4 PERCENT OVER THE LAST QUARTER OF 1975 AND THE COMMISSION ESTIMATES THE SECOND-QUARTER PRODUCTION WILL INCREASE BY 9.3 PERCENT OVER THE FIRST QUARTER. THE ABSOLUTE PRODUCTION FIGURE, 32.9 MILLION TONS,REPRESENTS AN INCREASE OF 3.5 PERCENT OVER PRODUCTION IN THE SECOND QUARTER OF 1975. THE COMMISSION ATTRIBUTES THE PROJECTED INCREASE IN SECOND-QUARTER PRODUCTION TO THE END OF DE-STOCKING PLUS A SMALL INCREASE IN CONSUMPTION,MODIFIED DOWNWARD BY A SIGNIFICANT DELINE IN EXPORTS TO
THIRD COUNTRIES. THESE ESTIMATES REPRESENT A CAPACITY UTILIZATION OF 65 PERCENT THE RECOVERY IN STEEL PRODUCTIN IS CONFINED MAINLY TO INCREASED DEMAND IN SECTORS PRODUCING CONSUMER DURABLES (AUTOMOBILES,CONSUMER ELECTRIC/ELECTRONICS) AND PUBLIC WORK STIMULATED BY GOVERNMENT ANTI- RECESSION PROGRAMS.

4. THE COMMISSION FORECASTS EC STEEEL IMPORTS OF 1.7 MILLION TONS WHICH REFLECT THE TREND DURING THE LATTER HALF OF 1975. IT ATTRIBUTES THIS LEVELING OFF OF IMPORTS TO " THE IMPACT OF THE CONSULTATIONS UNDERTAKEN BY THE COMMISSION WITHIN THE FRAMEWORK OF THE OECD AND THE REGIME OF AUTO-DISCIPLINE ADOPTED BY THE JAPANESE PRODUCERS." IMPORTS FORESCAST FOR THE SECOND QUARTER OF 1976 REPRESENT A 12 PERCENT DECLINE FROM THE SECOND QUATER OF 1975.

5. IN THE CRITICAL AREA OF STEEL PRICES,WHICH CAUSE THE LONG EC DEBATE OVER THE POSSIBLE IMPOSITION OF MINIMUM PRICES (SEE REFTEL A), THE FORWARD PROGRAM STATES THAT PRICES OF THE PRINCIPAL ROLLED PRODUCTS IN FEBRUARY AND

MARCH ROSE 20 TO 30 PERCENT ON AN AVERAGE OVER THOSE OF OCTOBER 1975. THIS IS STILL 20-25 PERCENT BELOW THE HIGH PRICES OF 1974. (A COMMISSONOFFICIAL TOLD US THAT THE INDUSTRY IS ATTEMPTING TO RAISE PRICES ANOTHER 10 PERCENT FOR MAY- JUNE DELIVERIES BUT GIVEN THE 25 PERCENT INCREASE IN COSTS SINCE 1974 IT WOULD STILLBE INSUFFICIENT TO CREATE A CASH FLOW ADEQUATE TO COVER PROJECTED INVESTMENT.)

6. THE EPLOYMENT STATISTICS SHOW A MARKED REDUCTION IN LAYOFFS, WORKING HOURS LOST AND THE NUMBER OF WORKERS AFFECTED BY SHORT TIME. THE NUMBER OF WORKERS/EMPLOYEES AFFECTED BY SHORT TIME IN FEBRUARY 1976 (24 PERCENT OF THE TOTAL LABOR FORCE) IS THE LOWEST FIGURE RECORDED SINCE SEPTEMBER 1975.

7. AS IN OUR REPORTS ONPREVIOUS FORWARD PROGRAMS (SEE REFTEL B), WE ARE REPRODUCING BELOW TWO TABLES FROM THE FORWARD PROGRAM,ONE ON OVERALL ESTIMATES,A SECOND GIVING PRODUCTION BREAKDOWNS BY MEMBER STATE. THE COMMISSION,IN THE FORWARD PRO- GRAM,ENCOURAGES THE EC STEEL INDUSTRY TO CONTINUE TO USE COMMISSION ESTIMATES FOR PLANNING OF PRODUCTION SO THAT THERE WILL NOT BE MARKET DISEQUILIBRIUM AND A FALL INMARKET PRICES.

TABLE A. ESTIMATED AVAILABILITIES AND REQUIREMENTS
FOR STEEL PRODUCTS IN THE COMMUNITY IN MILLION TONS
CRUDE STEEL:

	APR/JUNE	APR/JUNE	APR/JUNE
REAL CONSUMP-TION	34.37	29.5	29.7
STOCK CHANGE	-1.36	-2.94	0
EXPORTS	7.77	7.18	4.9
	APR/JUNE	APR/JUNE	APR/JUNE
	1974	1975	1976
IMPORTS	1.74	1.95	1.7
CRUDE STEEL PRODUCTION	39.04	31.79	32.9

TABLE B. CRUDE STEEL PRODUCTION IN MILLION M.T.
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	APR/JUNE 1975	APR/JUNE 1976	APR/JUNE PERCENTAGE CHANGE
GERMANY	10.23	10.4	PLUS 1.7
FRANCE	5.44	5.75	PLUS 5.7
ITALY	5.63	5.5	- 2.3
NETHERLANDS	1.16	1.15	----
BELGIUM-LUXEMBOURG	4.42	4.40	----
UK	4.74	5.45	PLUS 15
IRELAND- DENMARK	.17	.25	PLUS 47.
TOTAL FOR THE EC	31.79	32.9	PLUS 3.5M

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